

**CITY OF PRESTON
PRESTON, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2010**

**CITY OF PRESTON
PRESTON, IOWA**

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**CITY OF PRESTON
PRESTON, IOWA**

OFFICIALS

Name -----	Title -----	Term Expires -----
(Before January 2010)		
Steve Ritenour	Mayor	January 2012
Richard Rossmann	Mayor Pro Tem/Council Member	January 2012
Ken Larson	Council Member	January 2012
Carol Milder	Council Member	January 2010
Dave Jargo	Council Member	January 2010
Curtis Kilburg	Council Member	January 2010
Brenda Tebbe	City Clerk/Treasurer	Indefinite
Melissa Burken-Mommsen	City Attorney	Indefinite
(After January 2010)		
Steve Ritenour	Mayor	January 2012
Richard Rossmann	Mayor Pro Tem/Council Member	January 2012
Ken Larson	Council Member	January 2012
Curt Gruver	Council Member	January 2014
Dave Jargo	Council Member	January 2014
Curtis Kilburg	Council Member	January 2014
Brenda Tebbe	City Clerk/Treasurer	Indefinite
Melissa Burken-Mommsen	City Attorney	Indefinite

W.H. LEGLAR, CPA
S.J. DOMEYER, CPA
M.A. KUEPERS, CPA
J.W. HANNAN, CPA
M.P. RUGGEBERG, CPA
P.C. MCCARTHY, CPA
E.A. SCHILLING, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Preston as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Preston's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include financial data for its component units. The City has not issued such reporting entity financial statements. The assets, liabilities, net assets, revenues, and expenses of the legally separate component units are unknown, thus the amount by which this departure would affect the financial statements taken as a whole is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the aggregate discretely presented component units of the City of Preston, as of June 30, 2010, or the changes in cash basis financial position thereof for the year then ended.

Furthermore, in our opinion, the respective financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Preston as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 18, 2010 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Preston's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2009 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The other supplementary information included in Schedule 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements for the six years ending June 30, 2010 and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the six years ended June 30, 2010 taken as a whole.

The basic financial statements of the City of Preston for the three years ended June 30, 2004 (none of which are presented herein) were audited by other auditors whose reports dated August 12, 2004, August 13, 2003, and August 15, 2002, expressed unqualified opinions on those statements. Their reports stated that, in their opinion, such other supplementary information (Schedule 6) was fairly stated in all material respects in relation to the basic financial statements for those year then ended, taken as a whole.

O'CONNOR, BROOKS & CO., P.C.

O'Connor, Brooks & Co., P.C.
Dubuque, Iowa
November 18, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Preston provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 19.2% or \$104,590 from fiscal 2009 to fiscal 2010. The receipts included \$206,282 in property tax, \$66,672 in local option tax, \$88,031 in road use tax funds, and \$313,593 in other intergovernmental revenue.
- Disbursements decreased 4.0% or \$108,120 in fiscal 2010 from fiscal 2009. Public safety, electric, and gas disbursements decreased \$48,852, \$50,181 and \$101,704, respectively, while culture and recreation disbursements increased \$74,248.
- The City's total cash basis net assets increased 26.1% or \$96,316 from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased \$92,035. The assets of the business type activities increased by \$4,281.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds, proprietary funds, and internal service funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government and debt service. Property tax, state grants, and payments in lieu of taxes finance most of these activities.
- Business type activities include water, sewer, electric, gas, garbage, and customer deposits. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of the funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund; 2) the Special Revenue Funds, such as Road Use Tax, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains six Enterprise Funds to provide separate information for the water, sewer, electric, gas, garbage, and customer deposits funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$(141,382) to \$(49,347). The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year Ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service	\$ 40,235	\$ 37,776
Operating grants and contributions	150,735	135,010
Capital grants and contributions	171,574	---
General receipts:		
Property tax	206,282	174,342
Other city tax	71,309	71,093
Unrestricted investment earnings	1,373	1,783
Other general receipts	5,934	16,548
Debt proceeds	---	109,000
Sale of assets	2,700	---
Total receipts	\$ 650,142	\$ 545,552
Disbursements:		
Public safety	\$ 288,346	\$ 337,198
Public works	85,158	117,205
Culture and recreation	170,594	96,346
Community and economic development	14,002	6,926
General government	57,877	59,195
Debt service	22,130	22,554
Total disbursements	\$ 638,107	\$ 639,424
Change in cash basis net assets before transfers	\$ 12,035	\$ (93,872)
Transfers, net	80,000	---
Change in cash basis net assets	\$ 92,035	\$ (93,872)
Cash basis net assets beginning of year	(141,382)	(47,510)
Cash basis net assets end of year	\$ (49,347)	\$ (141,382)

Total receipts for the City's governmental activities increased by 19.2% or \$104,590. The total cost of all programs and services decreased \$1,317 or .2%. The increase in receipts is due to grant proceeds of \$171,574 for fire department equipment and a bike path expansion.

The cost of all governmental activities this year was \$638,107 compared to \$639,424 last year. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was \$275,563 because some of the cost was paid by those directly benefited from the programs \$40,235 or by other governments and organizations that subsidized certain programs with grants and contributions \$322,309. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for services increased from \$172,786 in fiscal year 2009 to \$362,544 in fiscal year 2010. The City paid for the remaining "public benefit" portion of governmental activities with \$315,798 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 158,686	\$ 159,728
Electric	985,472	935,665
Gas	474,902	591,149
Sewer	196,996	198,791
Garbage	124,532	125,062
Customer deposits	5,171	4,990
General receipts:		
Unrestricted interest on investments	7,892	17,581
Miscellaneous	106,521	59,943
Total receipts	<u>\$2,060,172</u>	<u>\$2,092,909</u>
Disbursements:		
Water	\$ 141,018	\$ 116,273
Electric	1,099,581	1,149,762
Gas	434,368	536,072
Sewer	187,842	169,074
Garbage	106,549	106,828
Customer deposits	6,533	4,685
Total disbursements	<u>\$1,975,891</u>	<u>\$2,082,694</u>
Change in cash basis net assets before transfers	\$ 84,281	\$ 10,215
Transfer, net	(80,000)	---
Change in cash basis net assets	<u>\$ 4,281</u>	<u>\$ 10,215</u>
Cash basis net assets beginning of year	509,755	499,540
Cash basis net assets end of year	<u><u>\$ 514,036</u></u>	<u><u>\$ 509,755</u></u>

Total business type activities disbursements for the fiscal year were \$1,975,891 compared to \$2,082,694 last year. The decrease in gas disbursements was due primarily to lower gas prices.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Preston completed this year, its governmental funds reported a combined fund balance of \$(54,385), an increase of \$92,582 above last year's total. The following are the reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased from \$(224,286) to \$(205,454). The increase of \$18,832 is due primarily to reducing expenses.
- The Road Use Tax Fund cash balance increased \$88,031 to \$148,506 to build up the fund for future projects.
- The Library Foundation Fund cash balance increased \$3,727 due to donations and interest.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$18,946 to build the fund up for future water system improvements.
- The Electric Fund cash balance decreased \$80,181 due to an increase in the rate the City pays for purchased power.
- The Gas Fund cash balance increased \$36,797 as the result of lower gas prices as anticipated at budget time.
- The Garbage Fund cash balance increased \$21,369 to provide funds for future equipment purchases.

BUDGETARY HIGHLIGHTS

The City amended its budget only once during the fiscal year. It was amended and approved on May 24, 2010, to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$910,483 less than budgeted. This was primarily due to not receiving grants monies for a housing rehabilitation project and funding for electric system improvements.

The City exceeded the amounts budgeted in the public safety, culture and recreation, and debt service functions for the year ended June 30, 2010 due to the purchase of equipment for the fire department, extending the Copper Creek bike path into the City of Preston, and debt service payments for the City's fire trucks. Grant proceeds funded the disbursements for the fire department equipment and bike path extension.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$351,980 in bonds and other long-term debt, compared to \$528,064 last year, as shown below.

Outstanding Debt at Year End		
	June 30,	
	2010	2009
General obligation notes	\$ 128,980	\$ 145,064
Revenue bonds	68,000	118,000
Revenue note	---	85,000
Other obligations	155,000	180,000
Total	\$ 351,980	\$ 528,064

Debt decreased as a result of principal payments made on existing debt. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$128,980 is significantly below its constitutional debt limit of \$2.3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Numerous issues were taken into account when adopting the budget for fiscal year 2011. Next year budget was increased in the water fund by \$450,000 due to a planned water system project. These funds will be borrowed and paid back over 10 years. Amount available for appropriation in the operating budget will be \$2,746,035, a decrease of 23% from the final 2010 budget. Property taxes are expected to increase approximately \$4,100 due to only a small increase in the assessed property valuations. The City will increase their contribution of in lieu of taxes to complete any projects that are expected to arise.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$94,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brenda Tebbe, City Clerk/Treasurer, P.O. Box 37, Preston, Iowa 52069.

**BASIC
FINANCIAL
STATEMENTS**

EXHIBIT "A"

CITY OF PRESTON
PRESTON, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental Activities:							
Public safety	\$ 288,346	\$ 31,300	\$ 37,834	\$ 96,574	\$ (122,638)	\$ ---	\$ (122,638)
Public works	85,158	573	88,031	---	3,446	---	3,446
Culture and recreation	170,594	3,757	24,179	75,000	(67,658)	---	(67,658)
Community and economic development	14,002	---	691	---	(13,311)	---	(13,311)
General government	57,877	4,605	---	---	(53,272)	---	(53,272)
Debt service	22,130	---	---	---	(22,130)	---	(22,130)
Total Governmental Activities	\$ 638,107	\$ 40,235	\$ 150,735	\$ 171,574	\$ (275,563)	\$ ---	\$ (275,563)
Business Type Activities:							
Water	\$ 141,018	\$ 158,686	\$ ---	\$ ---	\$ ---	\$ 17,668	\$ 17,668
Electric	1,099,581	985,472	---	---	---	(114,109)	(114,109)
Gas	434,368	474,902	---	---	---	40,534	40,534
Sewer	187,842	196,996	---	---	---	9,154	9,154
Garbage	106,549	124,532	---	---	---	17,983	17,983
Customer deposits	6,533	5,171	---	---	---	(1,362)	(1,362)
Total Business Type Activities	\$ 1,975,891	\$ 1,945,759	\$ ---	\$ ---	\$ ---	\$ (30,132)	\$ (30,132)
Total	\$ 2,613,998	\$ 1,985,994	\$ 150,735	\$ 171,574	\$ (275,563)	\$ (30,132)	\$ (305,695)

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities
	Disbursements				Total
General Receipts and Transfers:					
Property tax levied for general purposes		\$ 206,282		\$ ---	\$ 206,282
Other city tax		71,309		---	71,309
Unrestricted interest on investments		1,373		7,892	9,265
Miscellaneous		5,934		81,521	87,455
Interfund debt repayment		---		25,000	25,000
Sale of assets		2,700		---	2,700
Operating transfers		80,000		(80,000)	---
Total General Receipts		\$ 367,598		\$ 34,413	\$ 402,011
Change in Cash Basis Net Assets		\$ 92,035		\$ 4,281	\$ 96,316
Cash Basis Net Assets Beginning of Year		(141,382)		509,755	368,373
Cash Basis Net Assets End of Year		\$ (49,347)		\$ 514,036	\$ 464,689
Cash Basis Net Assets:					
Restricted:					
Streets		\$ 148,506		\$ ---	\$ 148,506
Library		66,016		---	66,016
Other purposes		2,903		150	3,053
Unrestricted (deficit)		(266,772)		513,886	247,114
Total Cash Basis Net Assets		\$ (49,347)		\$ 514,036	\$ 464,689

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

		Special Revenue			
	General	Road Use Tax	Library Foundation	Nonmajor	Total
Receipts:					
Property tax	\$ 206,282	\$ ---	\$ ---	\$ ---	\$ 206,282
Other city tax	66,672	---	---	---	66,672
Licenses and permits	7,022	---	---	---	7,022
Use of money and property	2,360	---	1,223	10	3,593
Intergovernmental	225,562	88,031	---	---	313,593
Charges for services	35,057	---	---	---	35,057
Special assessments	214	---	---	359	573
Miscellaneous	7,897	---	3,000	3,753	14,650
Total Receipts	\$ 551,066	\$ 88,031	\$ 4,223	\$ 4,122	\$ 647,442
Disbursements:					
Operating					
Public safety	\$ 288,346	\$ ---	\$ ---	\$ ---	\$ 288,346
Public works	84,611	---	---	---	84,611
Culture and recreation	170,098	---	496	---	170,594
Community and economic development	14,002	---	---	---	14,002
General government	57,877	---	---	---	57,877
Debt service	---	---	---	22,130	22,130
Total Disbursements	\$ 614,934	\$ ---	\$ 496	\$ 22,130	\$ 637,560
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (63,868)	\$ 88,031	\$ 3,727	\$ (18,008)	\$ 9,882
Other Financing Sources (Uses):					
Sale of assets	\$ 2,700	\$ ---	\$ ---	\$ ---	\$ 2,700
Operating transfers in	80,000	---	---	---	80,000
Total Other Financing Sources (Uses)	\$ 82,700	\$ ---	\$ ---	\$ ---	\$ 82,700
Net Change in Cash Balances	\$ 18,832	\$ 88,031	\$ 3,727	\$ (18,008)	\$ 92,582
Cash Balances Beginning of Year	(224,286)	60,475	47,893	(31,049)	(146,967)
Cash Balances End of Year	<u>\$ (205,454)</u>	<u>\$ 148,506</u>	<u>\$ 51,620</u>	<u>\$ (49,057)</u>	<u>\$ (54,385)</u>
Cash Basis Fund Balances:					
Unreserved:					
General fund	\$ (205,454)	\$ ---	\$ ---	\$ ---	\$ (205,454)
Special revenue funds	---	148,506	51,620	16,070	216,196
Debt service fund	---	---	---	(65,127)	(65,127)
Total Cash Basis Fund Balances	\$ (205,454)	\$ 148,506	\$ 51,620	\$ (49,057)	\$ (54,385)

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**RECONCILIATION OF THE STATEMENT
OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES
AND NET ASSETS - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

Total governmental funds cash balances	\$ (54,385)
---	-------------

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of the shed maintenance and to charge the reserve for insurance premiums to the individual funds. The assets of the Internal Service Funds are included in governmental activities in the Statement of Net Assets

5,038

Cash basis net assets of governmental activities	\$ (49,347)
---	-------------

Net change in cash balances	\$ 92,582
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of shed maintenance and to charge the reserve for insurance premiums to the individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities.

(547)

Change in cash balance of governmental activities	\$ 92,035
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**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

	Enterprise						Internal Service
	Water	Electric	Gas	Garbage	Nonmajor	Total	
Operating Receipts:							
Charges for services	\$ 158,686	\$ 985,472	\$ 474,902	\$ 124,532	\$ 202,167	\$ 1,945,759	\$ ---
Miscellaneous	---	63,081	---	1,815	---	64,896	---
Total Operating Receipts	\$ 158,686	\$ 1,048,553	\$ 474,902	\$ 126,347	\$ 202,167	\$ 2,010,655	\$ ---
Operating Disbursements:							
Salaries and wages	\$ 35,739	\$ 80,829	\$ 38,408	\$ 27,697	\$ 29,767	\$ 212,440	\$ ---
Employee benefits and costs	16,946	46,526	24,577	24,557	15,743	128,349	---
Staff development	503	273	4,806	---	203	5,785	---
Repairs, maintenance, and utilities	1,694	5,519	1,199	6,440	1,548	16,400	376
Contractual services	58,712	699,885	353,056	45,067	35,629	1,192,349	---
Commodities	13,837	22,858	9,508	1,771	5,976	53,950	1,809
Capital outlay	13,478	27,292	2,377	580	19,848	63,575	---
Total Operating Disbursements	\$ 140,909	\$ 883,182	\$ 433,931	\$ 106,112	\$ 108,714	\$ 1,672,848	\$ 2,185
Excess of Operating Receipts Over Operating Disbursements	\$ 17,777	\$ 165,371	\$ 40,971	\$ 20,235	\$ 93,453	\$ 337,807	\$ (2,185)

See notes to financial statements.

EXHIBIT "D" (CONTINUED)

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

	Enterprise						
	Water	Electric	Gas	Garbage	Nonmajor	Total	Internal Service
Non-Operating Receipts (Disbursements):							
Interest on investments	\$ 137	\$ 4	\$ 7,594	\$ 102	\$ 55	\$ 7,892	\$ ---
Miscellaneous	1,032	10,297	3,232	1,032	1,032	16,625	---
Repayment of interfund loan	---	---	25,000	---	---	25,000	---
Debt service	---	(89,250)	---	---	(85,552)	(174,802)	---
Capital projects	---	(126,603)	---	---	---	(126,603)	---
Net Non-Operating Receipts (Disbursements)	\$ 1,169	\$ (205,552)	\$ 35,826	\$ 1,134	\$ (84,465)	\$ (251,888)	\$ ---
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 18,946	\$ (40,181)	\$ 76,797	\$ 21,369	\$ 8,988	\$ 85,919	\$ (2,185)
Operating Transfers Out	---	(40,000)	(40,000)	---	---	(80,000)	---
Net Change in Cash Balances	\$ 18,946	\$ (80,181)	\$ 36,797	\$ 21,369	\$ 8,988	\$ 5,919	\$ (2,185)
Cash Balances Beginning of Year	111,766	(10,745)	316,402	79,156	12,982	509,561	5,779
Cash Balances End of Year	\$ 130,712	\$ (90,926)	\$ 353,199	\$ 100,525	\$ 21,970	\$ 515,480	\$ 3,594
Cash Basis Fund Balances:							
Restricted:							
Other purposes	\$ ---	\$ 150	\$ ---	\$ ---	\$ ---	\$ 150	\$ ---
Unrestricted	130,712	(91,076)	353,199	100,525	21,970	515,330	3,594
Total Cash Basis Fund Balances	\$ 130,712	\$ (90,926)	\$ 353,199	\$ 100,525	\$ 21,970	\$ 515,480	\$ 3,594

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS, AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

Total enterprise funds cash balances	\$ 515,480
---	------------

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of the shed maintenance and to charge the reserve for insurance premiums to the individual funds. The assets of the Internal Service Funds are included in business type activities in the Statement of Net Assets.

(1,444)

Cash basis net assets of business type activities	\$ 514,036
--	------------

Net change in cash balances	\$ 5,919
------------------------------------	----------

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of shed maintenance and to charge the reserve for insurance premiums to the individual funds. The change in net assets of the Internal Service Funds is reported with business type activities.

(1,638)

Change in cash balance of business type activities	\$ 4,281
---	----------

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 1 - Summary of Significant Accounting Policies:

The City of Preston is a political subdivision of the State of Iowa located in Jackson County. It was first incorporated in 1890 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides, water, sewer, electric, gas, and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Preston has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has one component unit which meets the Governmental Accounting Standards Board criteria, the Preston Volunteer Fire Department. This component unit has not been included in the City's financial statements.

Jointly Governed Organizations

The City participates in one jointly governed organization that provides goods or services to the citizenry of the City but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board: Jackson County Sanitation Disposal Agency.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Basis of Presentation (Continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and enterprise funds are aggregated and reported as nonmajor governmental funds and nonmajor enterprise funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Library Foundation Fund is used to account for donations restricted for use for the library.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Basis of Presentation (Continued)

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The Garbage Fund accounts for the operation and maintenance of the City's sanitation system.

The City also reports the following additional proprietary fund:

The Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City of Preston maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the city funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, and debt service functions.

Note 2 - Cash and Pooled Investments:

The City's deposits in banks at June 30, 2010, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the City had the following investments:

<u>Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Maquoketa Area Foundation	\$ 51,620	N/A

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit Risk - The City's investment in the Maquoketa Area Foundation is unrated.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 3 - Bonds and Notes Payable:

Annual debt service requirements to maturity for the City's indebtedness are as follows:

Year Ending June 30,	General Obligation Note		General Obligation Note		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 10,600	\$ 1,272	\$ 5,717	\$ 4,119	\$ 51,000	\$ 1,800
2012	10,600	848	5,966	3,871	17,000	255
2013	10,600	424	6,226	3,612	---	---
2014	---	---	6,495	3,341	---	---
2015	---	---	6,778	3,058	---	---
2016-2020	---	---	38,575	10,610	---	---
2021-2023	---	---	27,423	2,105	---	---
Total	<u>\$ 31,800</u>	<u>\$ 2,544</u>	<u>\$ 97,180</u>	<u>\$ 30,716</u>	<u>\$ 68,000</u>	<u>\$ 2,055</u>

Year Ending June 30	Other Obligations		Total	
	Principal	Interest	Principal	Interest
2011	\$ 20,000	\$ 6,448	\$ 87,317	\$ 13,639
2012	20,000	5,647	53,566	10,621
2013	20,000	4,837	36,826	8,873
2014	20,000	4,018	26,495	7,359
2015	25,000	3,188	31,778	6,246
2016-2020	50,000	3,212	88,575	13,822
2021-2023	---	---	27,423	2,105
Total	<u>\$ 155,000</u>	<u>\$ 27,350</u>	<u>\$ 351,980</u>	<u>\$ 62,665</u>

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$715,000 in sewer revenue bonds issued in August 1991 and November 1992. Proceeds from the bonds provided financing for improvements to the sewer system. The bonds are payable solely from sewer customer net receipts and are payable through 2012. Annual principal and interest payments on the bonds are expected to require less than 70 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$70,055. For the current year, principal and interest paid and total customer net receipts were \$53,315 and \$94,815, respectively.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 3 - Bonds and Notes Payable: (Continued)

The resolutions providing for the issuance of the sewer revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Sewer Fund, and the bondholders hold a lien on the future earnings of the fund.
- (b) Establish a Sinking Fund and make a monthly cash transfer equal to 1/6 of the installment of interest coming due on the next interest payment date plus 1/12 of the installment of principal coming due on the bonds on the next succeeding principal payment date.

The City's Sewer Fund balance is insufficient to meet the Sinking Fund requirements.

Note 4 - Pension and Retirement Benefits:

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$26,699, \$26,841, and \$24,799, respectively, equal to the required contributions for each year.

Note 5 - Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 8 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 5 - Other Postemployment Benefits (OPEB): (Continued)

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$431 for single coverage and \$1,077 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$106,773 and plan members eligible for benefits contributed \$0 to the plan.

Note 6 - 28E Agreement:

On July 26, 2004, the City entered into a 28E Agreement with the City of Miles to provide police services to the City of Miles. This agreement was renewed for a period of three years in July 2007. In June 2010, the City entered into a revised 28E agreement with the City of Miles.

On June 7, 2006, the City entered into a 28E Agreement with the City of Spragueville to provide police services to the City of Spragueville. The agreement was renewed for a period of three years on February 13, 2007. In June 2010, the City entered into a revised agreement with the City of Spragueville.

Note 7 - Compensated Absences:

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave and personal leave accumulates but is not payable upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
-----	-----
Vacation	\$ 12,548
	=====

The liability has been computed based on rates of pay as of June 30, 2010.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 8 - Interfund Transfers:

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to -----	Transfer from -----	Amount -----
General	Enterprise:	
	Electric	\$ 40,000
	Gas	40,000

		\$ 80,000
		=====

Transfers are used to move receipts from user fee generated funds to the general fund for certain administrative and other costs in the general fund.

Note 9 - Risk Management:

The City of Preston is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10 - Commitments:

In April 2010, the City approved a \$25,000 donation for the purchase of two ambulances to be paid over a period of three years.

During fiscal year 2010, the City entered into two contracts for services related to water system improvements totaling \$340,320. Payments of \$30,000 have been made on these contracts as of June 30, 2010.

Note 11 - General Fund Account Balances:

The account balances of the General Fund as of June 30, 2010, are as follows:

General	\$ (205,918)
Police capital account	464

Total General Fund Balance	\$ (205,454)
	=====

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 12 - Designation of Fund Balances:

	Special Revenue

Library purchases	\$ 14,396
Fire department purchases	2,903

	\$ 17,299
	=====

Note 13 - Deficit Fund Balance:

The General Fund, Special Assessment, and Debt Service Funds had deficit fund balances of \$205,454, \$1,229 and \$65,127, respectively, at June 30, 2010 as a result of disbursements in excess of receipts. The deficits will be eliminated by future receipts.

The Electric Enterprise Fund had a deficit fund balance of \$90,926, at June 30, 2010. The deficit fund balance is the result of disbursements in excess of charges for service. The deficit will be eliminated by future charges for service.

The Internal Service, Shed Reserve Fund had a deficit fund balance of \$1,928, at June 30, 2010. The deficit is the result of disbursements in excess of receipts. The deficit will be eliminated by future transfers from other funds.

Note 14 - Segment Information:

The government issued revenue bonds to finance its sewer department, which operates the City's sewer operations. The Sewer Fund was created to fulfill the required covenants of the revenue bonds. Summary financial information for the Sewer Fund is as follows:

Statement of Cash Receipts, Disbursements, and Changes in Cash Balances

Operating receipts	\$ 196,996
Operating disbursements	(102,181)

Operating income	\$ 94,815
Net non-operating receipts (disbursements)	(84,481)

Net change in cash balances	\$ 10,334
Cash balance beginning of year	(2,171)

Cash balance end of year	\$ 8,163
	=====

Note 15 - Subsequent Events:

Management has evaluated subsequent events through November 18, 2010, the date on which the financial statements were available to be issued.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

**CITY OF PRESTON
PRESTON, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts:							
Property tax	\$ 206,282	\$ ---	\$ ---	\$ 206,282	\$ 204,937	\$ 204,937	\$ 1,345
Other city tax	66,672	---	---	66,672	67,604	67,604	(932)
Licenses and permits	7,022	---	---	7,022	2,600	2,600	4,422
Use of money and property	3,593	7,892	---	11,485	30,000	30,000	(18,515)
Intergovernmental	313,593	---	---	313,593	272,000	272,000	41,593
Charges for services	35,057	1,945,759	---	1,980,816	2,450,250	2,900,250	(919,434)
Special assessments	573	---	---	573	810	810	(237)
Miscellaneous	14,650	41,625	---	56,275	75,000	75,000	(18,725)
Total Receipts	\$ 647,442	\$ 1,995,276	\$ ---	\$ 2,642,718	\$ 3,103,201	\$ 3,553,201	\$ (910,483)
Disbursements:							
Public safety	\$ 288,346	\$ ---	\$ ---	\$ 288,346	\$ 199,600	\$ 219,600	\$ (68,746)
Public works	84,611	---	---	84,611	90,150	95,150	10,539
Culture and recreation	170,594	---	---	170,594	88,625	93,625	(76,969)
Community and economic development	14,002	---	---	14,002	199,000	199,000	184,998
General government	57,877	---	---	57,877	75,105	75,105	17,228
Debt service	22,130	---	---	22,130	21,500	21,500	(630)
Business type activities	---	1,976,438	2,185	1,974,253	2,143,590	2,593,590	619,337
Total Disbursements	\$ 637,560	\$ 1,976,438	\$ 2,185	\$ 2,611,813	\$ 2,817,570	\$ 3,297,570	\$ 685,757

**CITY OF PRESTON
PRESTON, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 9,882	\$ 18,838	\$ (2,185)	\$ 30,905	\$ 285,631	\$ 255,631	\$ (224,726)
Other Financing Sources (Uses), Net	82,700	(80,000)	---	2,700	---	30,000	(27,300)
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	\$ 92,582	\$ (61,162)	\$ (2,185)	\$ 33,605	\$ 285,631	\$ 285,631	\$ (252,026)
Balances, Beginning of Year	(146,967)	515,340	5,779	362,594	606,986	606,986	(244,392)
Balances, End of Year	<u>\$ (54,385)</u>	<u>\$ 454,178</u>	<u>\$ 3,594</u>	<u>\$ 396,199</u>	<u>\$ 892,617</u>	<u>\$ 892,617</u>	<u>\$ (496,418)</u>

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING
JUNE 30, 2010**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$450,000 and budgeted disbursements by \$480,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, and debt service functions.

**OTHER
SUPPLEMENTARY
INFORMATION**

SCHEDULE "1"

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

	Special Revenue				
	Library Trust	Fire Department Trust	Special Assessments	Debt Service	Total
Receipts:					
Use of money and property	\$ 10	\$ ---	\$ ---	\$ ---	\$ 10
Special assessments	---	---	359	---	359
Miscellaneous	3,753	---	---	---	3,753
	-----	-----	-----	-----	-----
Total Receipts	\$ 3,763	\$ ---	\$ 359	\$ ---	\$ 4,122
	-----	-----	-----	-----	-----
Disbursements:					
Debt service	\$ ---	\$ ---	\$ ---	\$ 22,130	\$ 22,130
	-----	-----	-----	-----	-----
Net Change in Cash Balances	\$ 3,763	\$ ---	\$ 359	\$ (22,130)	\$ (18,008)
	-----	-----	-----	-----	-----
Cash Balances Beginning of Year	10,633	2,903	(1,588)	(42,997)	(31,049)
	-----	-----	-----	-----	-----
Cash Balances End of Year	\$ 14,396	\$ 2,903	\$ (1,229)	\$ (65,127)	\$ (49,057)
	=====	=====	=====	=====	=====
Cash Basis Fund Balances:					
Unreserved:					
Special revenue funds	\$ 14,396	\$ 2,903	\$ (1,229)	\$ ---	\$ 16,070
Debt service fund	---	---	---	(65,127)	(65,127)
	-----	-----	-----	-----	-----
Total Cash Basis Fund Balances	\$ 14,396	\$ 2,903	\$ (1,229)	\$ (65,127)	\$ (49,057)
	=====	=====	=====	=====	=====

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

	Enterprise Funds		
	Sewer	Customer Deposits	Total
Operating Receipts:			
Charges for services	\$ 196,996	\$ 5,171	\$ 202,167
Operating Disbursements:			
Salaries and wages	\$ 29,767	\$ ---	\$ 29,767
Employee benefits and costs	15,743	---	15,743
Staff development	203	---	203
Repairs, maintenance and utilities	1,548	---	1,548
Contractual services	29,096	6,533	35,629
Commodities	5,976	---	5,976
Capital outlay	19,848	---	19,848
Total Operating Disbursements	\$ 102,181	\$ 6,533	\$ 108,714
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ 94,815	\$ (1,362)	\$ 93,453
Non-Operating Receipts (Disbursements):			
Interest on investments	\$ 39	\$ 16	\$ 55
Miscellaneous	1,032	---	1,032
Debt service	(85,552)	---	(85,552)
Net Non-Operating Receipts (Disbursements)	\$ (84,481)	\$ 16	\$ (84,465)
Net Change in Cash Balances	\$ 10,334	\$ (1,346)	\$ 8,988
Cash Balances Beginning of Year	(2,171)	15,153	12,982
Cash Balances End of Year	\$ 8,163	\$ 13,807	\$ 21,970
Cash Basis Fund Balances:			
Unrestricted	\$ 8,163	\$ 13,807	\$ 21,970

See accompanying independent auditor's report.

SCHEDULE "3"

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - INTERNAL SERVICE FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

	Shed Reserve	Insurance Reserve	Total
	-----	-----	-----
Operating Receipts:			
Charges for service	\$ ---	\$ ---	\$ ---
	-----	-----	-----
Operating Disbursements:			
Repairs, maintenance and utilities	\$ 376	\$ ---	\$ 376
Commodities	1,809	---	1,809
	-----	-----	-----
Total Operating Disbursements	\$ 2,185	\$ ---	\$ 2,185
	-----	-----	-----
Net Change in Cash Balances	\$ (2,185)	\$ ---	\$ (2,185)
Cash Balances Beginning of Year	257	5,522	5,779
	-----	-----	-----
Cash Balances End of Year	\$ (1,928)	\$ 5,522	\$ 3,594
	=====	=====	=====
Cash Basis Fund Balances:			
Unreserved	\$ (1,928)	\$ 5,522	\$ 3,594
	=====	=====	=====

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

SCHEDULE "4"

**SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2010**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue Note: Electric	June 1, 2002	4.45-5.00%	\$ 580,000	\$ 85,000	\$ ---	\$ 85,000	\$ ---	\$ 4,250	\$ ---
Revenue Bonds:									
Sewer	August 1, 1991	3.00%	\$ 490,000	\$ 70,000	\$ ---	\$ 35,000	\$ 35,000	\$ 2,100	\$ ---
Sewer	November 25, 1992	3.00%	225,000	48,000	---	15,000	33,000	1,215	---
Total				\$ 118,000	\$ ---	\$ 50,000	\$ 68,000	\$ 3,315	\$ ---
General Obligation Note:									
Fire truck	December 13, 2002	4.00%	\$ 106,000	\$ 42,400	\$ ---	\$ 10,600	\$ 31,800	\$ 1,694	\$ ---
Fire truck	August 26, 2008	4.30%	109,000	102,664	---	5,484	97,180	4,352	---
Total				\$ 145,064	\$ ---	\$ 16,084	\$ 128,980	\$ 6,046	\$ ---
Other Obligation:									
Sewer Fund - Interfund Loan	August 27, 2007	3.90-4.30%	\$ 210,000	\$ 180,000	\$ ---	\$ 25,000	\$ 155,000	\$ 7,237	\$ ---

**CITY OF PRESTON
PRESTON, IOWA**

**BOND AND NOTE MATURITIES
JUNE 30, 2010**

Revenue Bonds					
Year Ending June 30	Sewer		Sewer		Total
	Issued August 1, 1991		Issued November 25, 1992		
	Interest Rates	Amount	Interest Rates	Amount	
	2011	3.00%	\$ 35,000	3.00%	
2012		---	3.00%	17,000	17,000
Total		\$ 35,000		\$ 33,000	\$ 68,000

Year Ending June 30	General Obligation Note					Other Obligation	
	Fire Truck		Fire Truck		Total	Sewer	
	Issued December 13, 2002		Issued August 26, 2008			Issued August 27, 2007	
	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount
2011	4.00%	\$ 10,600	4.30%	\$ 5,717	\$ 16,317	4.00%	\$ 20,000
2012	4.00%	10,600	4.30%	5,966	16,566	4.05%	20,000
2013	4.00%	10,600	4.30%	6,226	16,826	4.10%	20,000
2014		---	4.30%	6,495	6,495	4.15%	20,000
2015		---	4.30%	6,778	6,778	4.20%	25,000
2016		---	4.30%	7,073	7,073	4.25%	25,000
2017		---	4.30%	7,380	7,380	4.30%	25,000
2018		---	4.30%	7,701	7,701		---
2019		---	4.30%	8,036	8,036		---
2020		---	4.30%	8,385	8,385		---
2021		---	4.30%	8,749	8,749		---
2022		---	4.30%	9,129	9,129		---
2023		---	4.30%	9,545	9,545		---
Total		\$ 31,800		\$ 97,180	\$ 128,980		\$ 155,000

See accompanying independent auditor's report.

SCHEDULE "6"

CITY OF PRESTON
PRESTON, IOWA

SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION - ALL GOVERNMENTAL FUNDS
FOR THE LAST NINE YEARS

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Receipts:									
Property tax	\$ 206,282	\$ 174,342	\$ 147,711	\$ 146,562	\$ 136,435	\$ 134,029	\$ 137,691	\$ 135,861	\$ 119,137
Other city tax	66,672	66,509	65,914	65,542	56,045	55,086	60,174	58,538	52,828
Licenses and permits	7,022	7,069	7,007	6,060	10,708	2,710	4,421	5,889	6,381
Use of money and property	3,593	3,228	5,736	13,943	20,762	11,153	29,453	134,037	75,997
Intergovernmental	313,593	131,656	130,550	122,601	121,067	120,903	128,064	155,120	273,799
Charges for service	35,057	32,760	32,708	37,267	26,154	25,927	29,365	27,081	27,895
Special assessments	573	436	809	23,799	421	1,353	5,974	1,700	1,384
Miscellaneous	14,650	20,552	43,847	30,008	35,102	29,722	23,005	7,152	26,473
	\$ 647,442	\$ 436,552	\$ 434,282	\$ 445,782	\$ 406,694	\$ 380,883	\$ 418,147	\$ 525,378	\$ 583,894

Disbursements:

Operating:									
Public safety	\$ 288,346	\$ 337,198	\$ 226,036	\$ 185,318	\$ 171,555	\$ 143,485	\$ 138,002	\$ 220,395	\$ 215,714
Public works	84,611	118,477	190,783	76,383	93,386	144,658	94,064	78,665	82,190
Health and social services	---	---	---	---	368	550	525	918	2,070
Culture and recreation	170,594	96,346	106,851	145,582	97,272	107,733	89,902	88,753	83,876
Community and economic development	14,002	6,926	7,579	14,639	10,816	18,489	22,359	31,711	105,761
General government	57,877	59,195	58,306	54,478	51,821	52,559	57,024	55,317	58,487
Debt service	22,130	22,554	13,136	13,567	14,003	14,412	16,819	---	---
Capital projects	---	---	---	457,744	---	---	---	---	---
Total	\$ 637,560	\$ 640,696	\$ 602,691	\$ 947,711	\$ 439,221	\$ 481,886	\$ 418,695	\$ 475,759	\$ 548,098

O'CONNOR, BROOKS & CO., P.C.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Preston, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 18, 2010. We expressed an unqualified opinion on the financial statements of the various opinion units of the primary government and an adverse opinion on the aggregate discretely presented component units due to the omission of the financial data for the City's legally separate component units. In addition, we disclaimed an opinion on the required supplementary information. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Preston's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinions on the effectiveness of the City of Preston's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Preston's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

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A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Preston's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-10 and I-B-10 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-C-10 and I-D-10 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Preston's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Preston's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Preston's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Preston and other parties to whom the City of Preston may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Preston during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

O'Connor, Brooks & Co., P.C.
Dubuque, Iowa
November 18, 2010

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual at the City has custody of receipts and performs all recordkeeping and reconciling functions for the accounts.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain maximum internal control possible under the circumstances. A council member should receive the bank statement each month and review its contents. This review should be documented by the council member initialing the statement.

Response - The City Council feels they have segregated duties to the extent possible with the existing personnel.

Conclusion - Response accepted.

I-B-10 Adjusting Journal Entries - Several adjusting journal entries were proposed to management to represent a fair presentation of the financial statements. Significant adjustments were made to correct the fund balance of several funds.

Recommendation - We recommend that the City implement procedures to reasonably assure that account balances are fairly stated.

Response - We will consider this.

Conclusion - Response accepted.

I-C-10 Document Board Approval of Wage Rates – Wages of the City Library’s employees were discussed, but not formally approved by the Library Board or the City Council. Failure to document authorized wages rates could cause an over or under payment of wages.

Recommendation – We recommend that all wage rates be approved by the Library Board or City Council and that the approval be documented in the minutes.

Response – We will implement these procedures.

Conclusion - Response accepted.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010**

Part I: Findings Related to the Financial Statements: (Continued)

- I-D-10 Calculation of Payroll Tax Withholdings – Social security tax was not withheld from the wages of one City employee.

Recommendation – We recommend that as a routine procedure, the accuracy of payroll calculations be rechecked by an employee other than the one originally preparing the payroll. We also recommend that corrected payroll tax forms be prepared and submitted.

Response – We will consider this.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

- II-A-10 Certified Budget - Disbursements during the year ended June 30, 2010, exceeded the amounts budgeted in the public safety, culture and recreation, and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-10 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-10 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-10 Business Transactions - No business transactions between the City and City officials or employees were noted.

- II-E-10 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010**

Part II: Other Findings Related to Statutory Reporting: (Continued)

- II-F-10 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not. However, in the minutes, the Council approved funding to a private non-profit organization to provided funding for the purchase of an ambulance.

Recommendation - We recommend the City consider the requirements of Iowa Code Chapter 28E and formally document the terms of the transfer of funds to the non-profit organization. We also recommend the City consult with its attorney regarding this matter.

Response - The City will consider this and consult with our attorney.

Conclusion - Response accepted.

- II-G-10 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- II-H-10 Revenue Bonds and Notes - The City has established the appropriate account required by the sewer revenue bond resolution. During the year, the City made the required transfers to the account. Even though the required transfers were made, the fund balance was still insufficient to meet the sinking account requirements of the sewer revenue resolution, so the City has a net earnings violation.

Recommendation - We recommend that the City review the status of the Sewer Fund and investigate ways to improve the cash position to comply with the bond resolution requirement regarding fund balance.

Response - The City staff will discuss with the Council ways to improve the cash position so the City complies with the bond resolution.

Conclusion - Response accepted.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010**

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-I-10 Financial Condition - The General Fund had a deficit balance of \$205,454; the Special Revenue, Special Assessments Fund had a deficit balance of \$1,229; the Debt Service Fund had a deficit balance of \$65,127; the Enterprise, Electric Fund had a deficit balance of \$90,926; and the Internal Service, Shed Reserve Fund had a deficit balance of \$1,928 at June 30, 2010. All of these funds had deficit balances in the previous fiscal year with the exception of the Shed Reserve Fund. The deficit balance in the debt service fund continues to increase due to no amounts being transferred in for the principal and interest payments due on the City's debt.

Recommendation - The City should continue to investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position. This could include other revenue sources, as well as reviewing the budget process for cost reductions. The City should also transfer funds as needed to the debt service fund to provide monies for the payment of general obligation debt.

Response - We will investigate ways to eliminate these deficits.

Conclusion - Response accepted.